

Message Text

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APPROVED BY EUR/RPE:R S GELBARD
TREAS: A SOLOMON
"EA: J SHAFER
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TO AMEMBASSY PARIS

C O N F I D E N T I A L STATE 256452

USOECD

E.O. 11652: GDS

TAGS: EFIN, OECD

SUBJECT: US POSITION ON FUTURE WP-3 WORK PROGRAM

REF: PARIS 29318

FROM UNDER SECRETARY SOLOMON

1. WE BELIEVE THAT THE NEEDS OF THE WORKING PARTY WOULD
BE BEST SERVED BY A WORK PROGRAM WHICH FOCUSSED ON CERTAIN
SPECIFIC ISSUES RELEVANT TO THE WORKINGS OF INTERNATIONAL
ADJUSTMENTS IN THE MEDIUM TERM, RATHER THAN ON THE FURTHER
REFINEMENT OF PROJECTIONS PER SE.

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2. THE AIM SHOULD BE TO ACHIEVE A CLEARER PERCEPTION OF
ADJUSTMENT MECHANISMS: HOW MUCH DO WE KNOW ABOUT HOW QUICKLY
ANY DESIRED CHANGE CAN BE BROUGHT ABOUT, UNDER WHAT CIRCUM-
STANCES, AND WITH WHAT POLICY INSTRUMENTS? EACH OF THE
TOPICS SUGGESTED IN PARAGRAPH 3 OF THE SECRETARIAT'S PAPER
WOULD BE USEFUL IN THIS CONTEXT. RECOGNIZING, HOWEVER,

THAT IT WOULD PROBABLY NOT BE FEASIBLE TO STUDY ALL OF THESE TOPICS SIMULTANEOUSLY, I WOULD GIVE PRIORITY TO THE FIRST THREE, NAMELY:

- 1) STRUCTURAL IMPEDIMENTS TO RAPID ADJUSTMENT;
- 2) ROLE OF EXCHANGE RATES IN ADJUSTMENT;
- 3) DETERMINANTS OF INTERNATIONAL COMPETITIVENESS.

3. THE ALTERNATIVE PROPOSED WORK PROGRAM, THOUGH NOT WITHOUT MERIT, SEEMS LIMITED IN ITS USEFULNESS FOR TWO REASONS. FIRST, WE ARE CONVINCED THAT THE NUMEROUS UNCERTAINTIES INVOLVED NECESSARILY LIMIT MEDIUM-TERM FORECASTING EFFORTS TO PREDICTING A RATHER WIDE RANGE OF POSSIBLE OUTCOMES WHICH, IN MOST CASES, WOULD NOT PROVIDE A SUFFICIENT BASIS FOR ASSESSING MEMBER COUNTRIES' POLICIES.

4. SECOND, WE BELIEVE THAT MEMBERS OF THE WORKING PARTY WOULD BROADLY AGREE ABOUT THE DIRECTION OF NEEDED ADJUSTMENT WITHIN THE INTERNATIONAL ECONOMY. SUCH CONCLUSIONS, ARRIVED AT JUDGMENTALLY, CAN SERVE AS A BASIS FOR ASSESSING WHETHER OR NOT PARTICULAR MOVEMENTS ARE APPROPRIATE WITHOUT WAITING FOR OR RELYING ON THE RESULTS OF A QUANTITATIVE EXERCISE.

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5. IT MIGHT ALSO BE NOTED THAT, BY UNDERTAKING TO STUDY THE SPECIFIC TOPICS LISTED ABOVE, THE SECRETARIAT WOULD AT THE SAME TIME ENHANCE ITS ABILITY TO PERFORM SENSITIVITY ANALYSES AND EVALUATE THE RANGE OF POTENTIAL PAYMENTS DEVELOPMENTS OVER TIME AND THUS ACHIEVE AT LEAST SOME OF THE OBJECTIVES OF THE ALTERNATIVE WORK PROGRAM. THIS WOULD PRESUMABLY INVOLVE A RANGE OF QUANTITATIVE TECHNIQUES, INCLUDING BUT NOT LIMITED TO FORMAL MODEL-BUILDING.

6. WE WOULD NOT, OF COURSE, EXPECT THE ENTIRE BURDEN OF THESE STUDIES TO BE LEFT WITH THE SECRETARIAT, BUT WOULD SUGGEST THAT ONE OR MORE SMALL GROUPS OF EXPERTS FROM NATIONAL DELEGATIONS BE FORMED TO ASSEMBLE THE COLLECTED WISDOM AND EXPERIENCE ON THESE QUESTIONS FOR PRESENTATION TO THE WORKING PARTY. VANCE

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